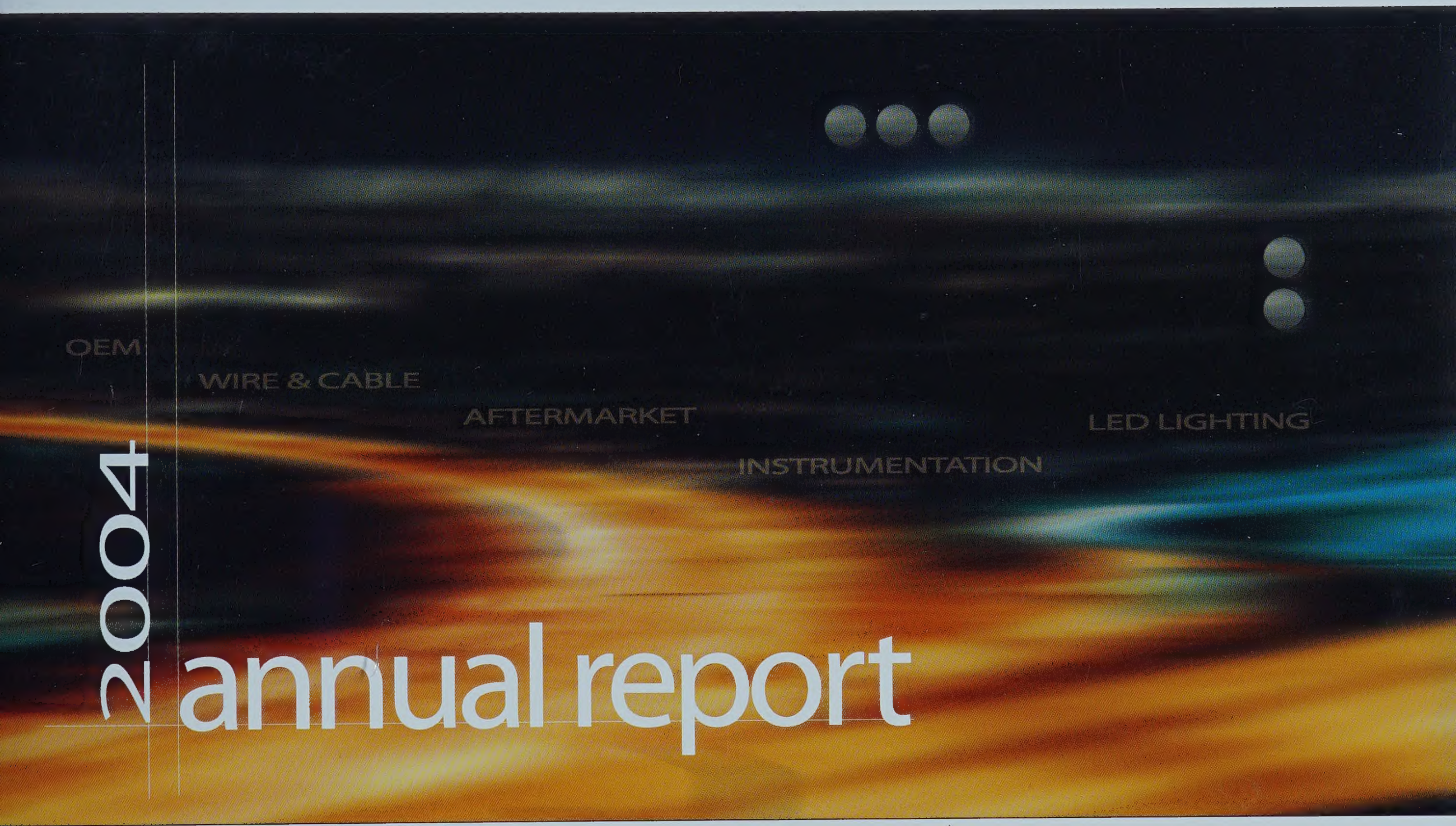


2004 annual report

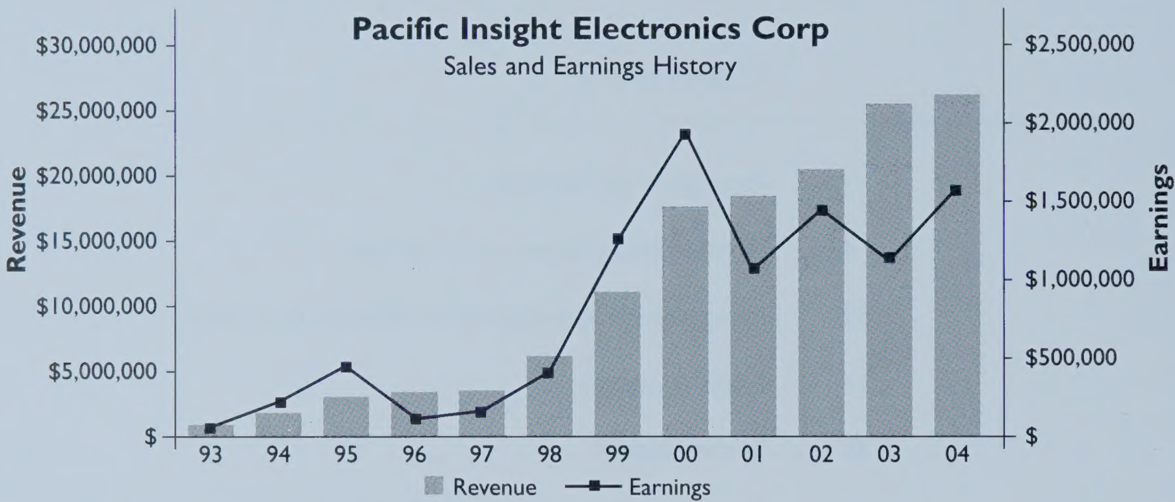
PACIFIC INSIGHT ELECTRONICS CORP.

CONTENTS

Message to Shareholders

On behalf of the Board of Directors, I am pleased to report on yet another successful and profitable year for Pacific Insight Electronics Corp. and its shareholders.

We have posted positive earnings and continued sales growth for the 12th consecutive year, and 2004 was no exception. To highlight a few milestones: we surpassed $3 million in monthly sales, broke our all-time quarterly sales record and posted our first 11¢ EPS quarter.



During the year, our solid financial performance continued to build the Company's working capital position which further strengthened our debt free balance sheet. This financial strength allowed us the flexibility to position ourselves to be profitable under the current exchange rate environment while not losing focus on the future of the company. Despite the challenging first two quarters we invested over $700,000 in productive capital assets as well as $1.7 million in research and development.

In the first two quarters, we commented on the impacts of the strengthening Canadian dollar on our operations. However, due to the dedication of our management team and staff, the third and fourth quarters have brought us back to our traditional level of profitability. Sales grew by 3.6% to $26.4 million, up from $25.5 million in 2003 and profits grew by 28% to $1.6 million from $1.2 million in 2003.

The turn around during the year was the result of better management of costs, working capital, purchasing, sales, and manufacturing processes. Management is fully committed to continue its focus on managing our resources and processes to maximize and sustain profitability. In order to sustain and grow the returns to our shareholders, we have established strategic priorities for the development of new product lines and obtaining full value from our manufacturing facility. To this end, we will continue to evaluate and rationalize those products, lines, and markets offering lower returns, and shift resources to the products and markets with the greatest potential.

The Company is diversified into three primary industry sectors: Automotive, Heavy Truck and Marine. Within these three sectors, five divisions were established to manage and expand the business. The five divisions are **Original Equipment (OE), After-Market, Wire and Cable, LED Lighting, and Instrumentation.**

The **OE Division** includes products such as Daytime Running Light modules, Heated Seat modules, Lighting Control modules, Data-Protocol Converters, and other electronic products installed by OE Automotive and Heavy Truck manufacturers. The OE Division represented 14% of total revenue in 2004 and 27% in 2003. This decline is due to the effects of foreign exchange as well as one major product line coming to the end of its life cycle. Several new products have been developed and are in the production pipeline but have yet to reach substantial numbers; these include the Ford Gateway module for the Hybrid Ford Escape. This sector of the business has enormous potential and therefore management has dedicated significant R&D resources here. Growth in the booming heavy truck and specialty markets will drive sales in this division in the coming years.

The **After-Market Products Division** includes products such as daytime running lights, vehicle security systems, and flasher modules. The After Market division sales represented 15% of total revenue in 2004 and 21% in 2003. This decline is due to a management decision to cease new product development activities in our vehicle security lines. Management feels that these resources will achieve greater returns in other areas of our business. The lower sales here are the practical reality of implementing the strategic processes outlined above. We have, however, redirected some of these resources to expanding our microprocessor controlled flasher line, and have many new solid state flasher modules. Demand for the flasher line is strong and will grow through expanded distribution.

The **Wire and Cable Products Division** represented 25% of total revenues in 2004 and 20% in 2003. The Wire and Cable Division had year over year sales growth of over 28% this year in addition to the 38% growth last year. This part of our business services the heavy truck, vocational truck, trailer, and marine industries. These industries are experiencing excellent growth at this time and we are capitalizing on that growth by expanding our R&D, production automation, and product innovation efforts here. An example of this is our new Trailer Control Module for truck and trailer OEMs that replaces traditional wiring with robust electronic modules. The Company's high quality wire and cable products are ideally suited for the most demanding industrial applications such as marine, refuse and highway trailers. We continue to foster relationships with existing and new customers and we are confident that our excellent products will earn us an increasingly greater share of the North American wire and cable business.

The **LED Lighting Products Division** was established this year to better focus our efforts on this exciting and growing market. Sales of LED lighting products represented 33% of total revenues in 2004 and 21% in 2003, the majority of which is sold through our exclusive partner, Peterson Manufacturing Company, a world leading innovator and supplier of vehicle lighting products. This division has been the focus of a great deal of our R&D department's efforts this year, and we are now realizing the rewards of that investment. LED lighting products manufactured by the Company can now be found on OEM vehicles, trailers, and at aftermarket suppliers world-wide. We are also developing proprietary products and patented technologies in this area and developing strategic alliances that will reward the company for years to come. One prime example is our latest innovation, the 360° LED Warning Light that replaces traditional high maintenance rotating warning lights. Users of this product include municipal trucks, heavy equipment, forklifts, and tow trucks.

The **Instrumentation Division** had a respectable increase in sales during the year. Sales of instrumentation products represented 13% of revenues in 2004 and 11% in 2003. The Instrumentation Division continues to be a major growth opportunity for the Company. This Division concentrates on the marine, bus, and heavy truck markets. These markets are currently making the shift from analog air-core gauges to stepper motor/data-bus technology. Pacific Insight has secured several new major customers who will be introducing our instruments in the coming months. An example of this growth is the new instrumentation panels and controllers for Autocar LLC.

Message to Shareholders continued

We start the 2005 fiscal year with a strong management team, a strong debt free balance sheet with an excess of $8.7 million in working capital, and an appropriate cost structure in place. We also have a solid production order book, growing sales, and new product launches scheduled throughout the year. We fully intend to make 2005 the 13th consecutive year the Company has profitably increased revenues, and we are confident that our strategic long term investments in product research and development, infrastructure, and most importantly, our people, will make this possible.

Part of the reason we have been able to build our Company to its current size is the years of sound business advice we have received from our recently retired Director, Mr. Norris. The business experience that Mr. Norris was able to impart on management has made a lasting impression. On behalf of the entire staff and Board of Directors we would like to thank Mr. Norris and wish him well in his retirement.

Along with Mr. Norris's retirement came the appointment of Mr. Peter R.B. Armstrong to the Board of Directors. Mr. Armstrong is President, Chief Executive Officer, and principal shareholder of the Great Canadian Railtour Company Ltd. He is also owner and operator of the Rocky Mountaineer Railtours with headquarters in Vancouver, B.C. Prior to taking over the Rocky Mountaineer, he managed a successful British Columbia-based motor-coach business. We look forward to working with Mr. Armstrong in the coming years.

As a final note, the Company's progress this year would not have been possible without our skilled and hard working staff. Through their dedicated commitment to quality, our customers, and the Company our staff has positioned the company for years of profitable growth ahead.

On behalf of the Board,

Brad Smithson
President and CEO

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) pertains to the Fourth Quarter and the June 30, 2004 Year End results of Pacific Insight Electronics Corp. (Pacific Insight, or the Company). This MD&A is intended to help readers understand Pacific Insight; its business, strategies, performance, and future outlook from the perspective of management. The information provided should be read in conjunction with the June 30, 2004 audited annual financial statements, notes, and Annual Information Form. These documents, news releases, and other important information may be viewed on-line at **www.sedar.com**. Our company web site **www.pacificinsight.com** also contains descriptions of our product lines, the Company history, and contact information.

The following MD&A may contain management estimates of anticipated future trends, activities, or results; these are not a guarantee of future performance, since actual results may vary based on factors and variables out of management's control.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls. Management is also responsible to ensure that information disclosed externally, including the financial statements and MD&A, is complete and reliable.

This MD&A has been prepared by reference to the new MD&A disclosure requirements established under National Instruments 51-102 "Continuous Disclosure Obligations". The audited financial statements for the year ended June 30, 2004 were prepared in accordance with Canadian generally accepted accounting principles and reported in Canadian dollars.

Pacific Insight's Board of Directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The Board's Audit Committee meets with management quarterly to review the financial statement results, including the MD&A, and to discuss other financial, operating, and internal control matters. The Audit Committee receives a report from the independent auditors quarterly and annually, and is free to meet with them throughout the year.

OVERVIEW

Pacific Insight designs and manufactures advanced vehicle products for the automotive, heavy truck and marine industries. A comprehensive overview of our product lines can be viewed on our Company website, listed above.

	For the fourth quarters ended		For the years ended	
All figures in Canadian $	**2004**	2003	**2004**	2003
Revenues	**$ 7,712,000**	$ 6,362,000	**$ 26,440,000**	$ 25,512,000
Net Income (Loss)	**$ 871,000**	$ (31,000)	**$ 1,580,000**	$ 1,236,000
EPS fully diluted	**11¢**	0¢	**19¢**	14¢

Pacific Insight set both profitability and sales records in the fourth quarter with 11¢ earnings per share (EPS) or $871,000 on sales of $7.712 million. The Company also posted a record sales month in June of over $ 3.0 million.

For the year ending June 30, 2004 sales increased to $26.440 million up from $25.512 million in fiscal 2003, an increase of 3.6%. After tax net earnings for the year increased 28% to $1.580 million or 19¢ EPS up from $1.236 million in fiscal 2003 or 14¢ EPS fully diluted.

In response to the rapidly changing foreign exchange environment, management began a core review process during the first quarter of fiscal 2004. As a direct result of this core review process during the year we have: changed our buying patterns, strengthened our management team, strengthened our internal reporting team, expanded our hedging program, and altered our sales strategies. Our goal was two-fold; to ensure we could compete profitably with a strong Canadian dollar, and to rework our management infrastructure to build a cost effective framework for future growth. The core review process is still under way, but some progress can be seen in the financial results of the last two quarters.

Summary of quarterly results

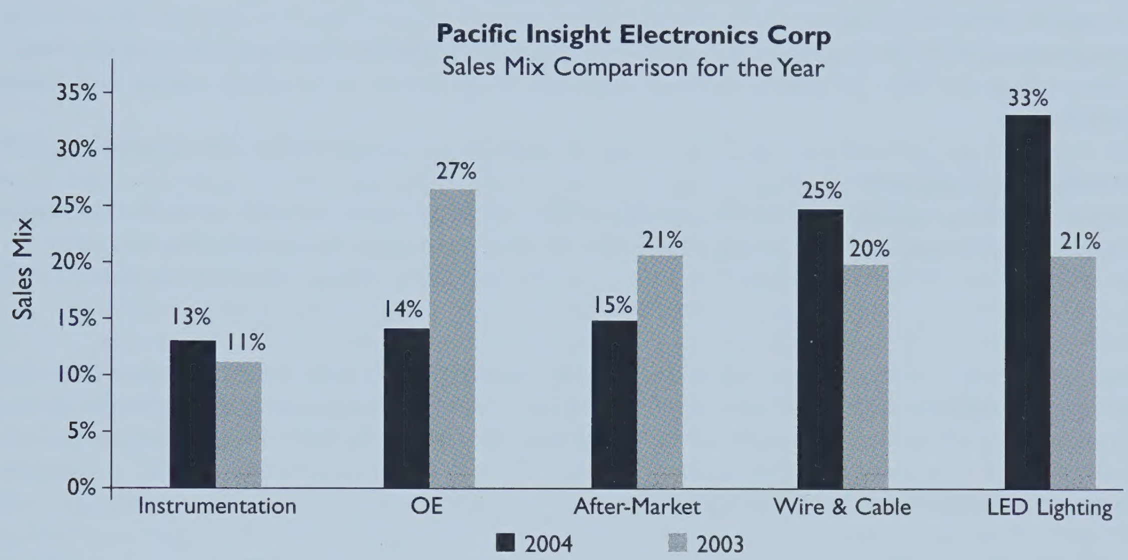
	For the quarters ended							
All figures in	2004				2003			
Canadian $	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Divisional sales								
OEM Module	**942,000**	**952,000**	**803,000**	**875,000**	1,503,000	2,046,000	1,734,000	1,723,000
After-Market	**1,177,000**	**1,164,000**	**1,073,000**	**656,000**	1,147,000	2,082,000	1,430,000	784,000
Instrumentation	**946,000**	**981,000**	**816,000**	**784,000**	784,000	766,000	542,000	626,000
Wire & Cable	**1,836,000**	**1,574,000**	**1,833,000**	**1,337,000**	1,352,000	1,258,000	1,213,000	1,313,000
LED Lighting	**2,811,000**	**2,343,000**	**2,109,000**	**1,428,000**	1,576,000	1,450,000	1,406,000	777,000
Total Revenue	**7,712,000**	**7,014,000**	**6,634,000**	**5,080,000**	6,362,000	7,602,000	6,325,000	5,223,000
Net Earnings	**871,000**	**610,000**	**83,000**	**17,000**	(31,000)	521,000	501,000	244,000
CDN/US $ FX rate as at end of Quarter	1.3338	1.3113	1.2965	1.3499	1.3475	1.4678	1.5776	1.5872
EPS (rounded)								
Basic	**11¢**	**7¢**	**1¢**	**0¢**	0¢	6¢	6¢	3¢
Fully Diluted	**11¢**	**7¢**	**1¢**	**0¢**	0¢	6¢	6¢	3¢

Selected historical financial information

For the years ended	2004	2003	2002	2001
All figures in Canadian $				
Revenue	**26,440,172**	25,511,803	20,412,276	18,334,723
Net Earnings	**1,580,319**	1,235,585	1,403,597	1,143,113
EPS				
Basic	**19¢**	15¢	17¢	15¢
Fully Diluted	**19¢**	14¢	16¢	14¢

OVERALL CORPORATE RESULTS

Business Divisions
Pacific Insight has established five business divisions to manage the Automotive, Heavy Truck and Marine Industries. These divisions are Original Equipment (OE), After-Market, Instrumentation, Wire and Cable, and LED Lighting.



Original Equipment Products
The **Original Equipment Division** represented 12% of the fourth quarter's revenue or $942,000 as compared to 24% or $1.503 million of the comparative quarter; and 14% of the annual revenue or $3.572 million in 2004 versus 27% or $7.006 million in 2003.
The change in the revenue pattern is due to four main factors:

1. Our Ford Belt-Minder product came to the end of its life cycle in the beginning of the year.
2. Sales of daytime running light modules are declining as more vehicles bring this function into their main CPU.
3. This division was particularly susceptible to the foreign exchange rate shift as all sales are denominated in US funds.
4. The new products starting their life cycle, such as the Ford Heated Seat module and the Ford Gateway module have yet to reach full production numbers.

The core review process has targeted this division as having excellent growth prospects and matching the core competencies of the Company. Consequently, R&D resources will continue to be directed to the OE division. There are products in the late, mid and preliminary stages of development that will replace the older products. The Original Equipment division will benefit from growth in the heavy truck and automotive markets.

After-Market Products
The **After-Market Division** represented 15% of the fourth quarter's revenue or $1.177 million as compared to 18% or $1.147 million of the comparative quarter; and 15% of the annual revenue or $4.070 million in 2004 versus 21% or $5.443 million in 2003.

The change in revenue in this division is largely the direct result of our core management review process. Management considered the available opportunities for the deployment of our R&D, sales, and manufacturing resources, and decided to cease product research and development activities in our vehicle

security lines. Management felt that these research and development resources would achieve greater returns in other areas of our business. The recent change in the revenue pattern is due to three main factors:

1. Sales of our vehicle security products are declining.
2. Sales of the aftermarket daytime running light modules are declining as more vehicles have that functionality built into their main CPU.
3. This division was particularly susceptible to the foreign exchange rate shift as all sales are denominated in US funds.

Other products in this division such as our micro-processor controlled flasher modules have excellent industry acceptance and will continue to grow in sales due to the strong heavy truck market and increased market penetration.

Instrumentation Products

The **Instrumentation Division** represented 12% of the fourth quarter's revenue for both this year and last, although sales were up to $946,000 from $784,000 in the comparative quarter. For the year divisional revenue was 13% of the annual revenue or $3.527 million in 2004 versus 11% or $2.718 million in 2003.

The change in revenue in this division was mainly due to growth in the heavy truck industry. These sales are primarily in Canadian dollars and are therefore not impacted by foreign exchange variances by the same degree as other divisions. Management has targeted this division as a future growth area and an excellent fit with the core competencies of the Company. We will continue to invest in R&D to improve our current product line and develop new products.

Wire and Cable Products

The **Wire and Cable Division** represented 24% of the fourth quarter's revenue or $1.836 million as compared to 21% or $1.352 million of the comparative quarter; and 25% of the annual revenue or $6.580 million in 2004 versus 20% or $5.136 million in 2003.

The Wire and Cable Division had year over year sales growth of 28% this year in addition to the 36% growth last year. The revenue increases were largely due to the growth in the heavy truck market and our marketing efforts. Management is expending R&D, capital and time on streamlining, efficiency improvements, and marketing.

LED Lighting Products

The **LED Lighting Division** has been the largest growth area of our business. It represented 37% of the fourth quarter's revenue or $2.811 million as compared to 25% or $1.576 million of the comparative quarter; and 33% of the annual revenue or $8.691 million in 2004 versus 21% or $5.209 million in 2003.

Management views this division as a future growth area and an excellent fit with the core competencies of the Company. Therefore we will continue to invest in R&D to improve our current product line and develop new products. Management has also applied for several patents on the technology we are developing in this field to support and grow our business.

The Company achieved many LED milestones in the year. In December we posted our first month of LED sales over $1 million and we set record results in almost every quarter. In January, the Company announced two new LED contracts with Peterson Manufacturing Company with total annual revenues in excess of $5 million. Subsequent to year end the Company announced a multi million dollar opportunity with Peterson on a revolutionary LED warning lamp.

Cost of sales increased this year by 7.7% to $20.768 million from $19.289 million last year. This increase was considerably more than the 3.6% increase in revenue. The increase in costs was mainly due to two factors; first, the change in the Canadian / US exchange rate lowered revenues by approximately $2 million, and second, the shift in our product mix altered our cost structure upward.

Management is continuing the core review process in order to maximize the efficiencies we can achieve from our manufacturing facility. To assist in this process management has added a new position of Vice-President Operations, and brought in a seasoned industry professional. One of the main mandates of this individual is to create a cost effective infrastructure that can profitably take the Company to the next sales level.

Selling, general and administrative ('SG&A') expenses decreased during the year by $838,000 from $3.877 million in 2003 to $3.039 million this year. This positive shift was brought about by changes in all of the cost areas that make up the SG&A. The majority of the cost changes are from:

1. Sales and marketing costs were down by about $238,000, 26% due to strategic changes in our commission sales agent structure.
2. R&D costs were decreased by approximately $103,000, 11%. This cost reduction is actually the net impact of increased R&D spending offset by increased capitalization of product development costs, and the receipt of our first SR&ED tax credit.
3. Foreign exchange gains this year of $182,000 were in comparison to last years losses of $253,000, for a net difference of $435,000.

Other income for the year was up considerably to $236,000 this year from $62,000 last year, or 278%. This shift was largely due to the Company being paid $130,000 for reimbursement on engineering work to develop a low volume automotive control module. This is an interesting development for the Company and the industry. Certain OEM customers are relying on us to design and develop products from scratch instead of building from their tight specifications. We are actively pursuing this work as it fits with our core competencies.

Income tax for the year was at an effective rate of 33.56% in 2004 from 35.93% in 2003. The shift was due to tax deductions from prior years being booked on reassessment.

During the year, the Company received government assistance in the form of investment tax credits for research and development performed in the 2002 taxation year. These investment tax credits have been reflected in the financial statements in the year ended June 30, 2004, the year in which reasonable assurance was first obtained that they would be realized.

Net Income and Earnings per Share in the fourth quarter of this year were $871,000 (11.3% of revenue, and 11¢ EPS) versus a loss in last year's comparative quarter of $31,000 (0.5% of revenue, and 0¢ EPS). Earnings in the fourth quarter of last year were severely impacted by the strengthening of the Canadian dollar. The direct cost of foreign exchange rate changes in last years fourth quarter was approximately $700,000 before tax. For the fourth quarter this year we recorded a foreign exchange gain of $121,000.

Earnings before interest, taxes, depreciation, and amortization ('EBITDA') were $1,624,000 in the fourth quarter of 2004 versus a loss of $3,000 for the comparative quarter. Earnings for the full year in 2004 were $1,580,000 (6% of revenue, and 19¢ EPS) versus last year's comparative earnings of $1,235,000 (5% of revenue, and 14¢ EPS).

Earnings before interest, taxes, depreciation, and amortization ('EBITDA') were $3,138,000 for 2004 versus $2,543,000 for the comparative year.

FINANCIAL CONDITION AND LIQUIDITY

Selected historical financial information

For the years ended June 30	2004	2003	2002	2001
All figures in Canadian $				
Cash flow provided by operating activities	**2,480,905**	842,393	2,487,112	297,644
Cash as at year end	**2,202,291**	1,516,847	2,268,777	1,021,396
Working capital as at year end	**8,738,542**	7,962,441	7,552,944	6,513,081
Total assets as at year end	**18,683,348**	16,420,206	16,085,213	14,200,352

Cash and cash equivalents were $2.202 million at June 30, 2004 and working capital was $8.739 million compared with $1.517 million and $7.962 million respectively at June 30, 2003. There has been no long-term debt in the Company since 2001. The Company currently has a treasury consisting of cash and investment grade corporate bonds with a variety of maturity dates. The treasury is unencumbered and highly liquid.

Liquidity: The Company has sufficient cash and working capital to meet current and anticipated commitments. Management is confident that the Company will continue to generate sufficient cash in the short and long term to maintain and grow the Company's capacity in order to meet planned growth.

Property, plant, and equipment: Expenditures on plant and equipment acquisitions during the year were $676,000 in 2004, compared to $487,000 in 2003. The majority of these expenditures were for automated production equipment. Deferred development expenditures of $792,000 were incurred in 2004 and $356,000 in 2003.

Share capital for the fourth quarter: There was no issuance or cancellation of shares during the year. However, the Company has had an active Normal Course Issuer Bid (NCIB) program in place. In the fourth quarter, the Company repurchased 54,800 shares for total proceeds of $128,974 or an average of $2.35 per share.

There were no options exercised or cancelled during the quarter, however a total of 40,000 options were granted to a key employee, and the new Director. This was the first time options were granted since adopting CICA Handbook Section 3870 "Stock-based compensation and other stock-based payments", which establishes standards for the recognition, measurement, and disclosure of stock-based compensation, and other stock-based payments made in exchange for goods and services. The Company has chosen to adopt the new standards whereby it accounts for awards to employees and non-employees based on the Fair Value Method. Accordingly, the fair value of the options at the date of grant is accrued and charged to operations, with an offsetting credit to contributed surplus. Any consideration paid by the option holder to purchase shares is credited to share capital.

During the quarter the value of the 40,000, ten year stock options granted was determined using the Black-Scholes option pricing model based on the following underlying assumptions:

Risk free interest rate	3.92%
Expected life of the options granted	5 years
Expected volatility	22.27%
Expected dividends	0.00%

In the quarter, stock based compensation of $26,199 was charged to administrative expenses, with the offset recorded as contributed surplus. The weighted average fair value of stock options granted was 65¢ each, nil in 2003.

Share Capital for the year: The Company renewed its Normal Course Issuer Bid (NCIB) in the month of October. During the year the Company re-purchased 152,100 shares for total proceeds of $399,297 or an average of $2.63 per share.

The authorized share capital of the Company is 100,000,000 common shares without par value.

Details of issued and outstanding common shares are as follows:

For the years ended June 30	2004		2003	
Amount columns in Canadian dollars	**Number Of Shares**	**Amount**	Number Of Shares	Amount
Balance, beginning of year	**8,268,868**	**$ 8,011,262**	8,596,068	$ 8,304,020
Exercise of options	—	—	43,200	66,530
Cancellation of shares	—	—	(370,400)	(359,288)
	8,268,868	**8,011,262**	8,268,868	8,011,262
Treasury shares, beginning of year	**(55,600)**	**(46,094)**	(166,500)	(97,564)
Repurchased	**(152,100)**	**(399,297)**	(259,500)	(817,684)
Cancelled	—	—	370,400	869,154
	(207,700)	**(445,391)**	(55,600)	(46,094)
Balance, end of year	**8,061,168**	**$ 7,565,871**	8,213,268	$ 7,965,168

Stock options – The Company has reserved 1,725,000 common shares pursuant to a stock option plan (the Plan). Options to purchase common shares of the Company under the Plan may be granted by the Board of Directors to certain executive officers and directors, employees and consultants of the Company. Under the Plan, the exercise price of each option shall not be less than the weighted average closing price of the Company's shares for the five trading days preceding the date of the grant. The options can be granted for a maximum term of ten years.

A summary of options outstanding under the Plan as of June 30, 2004 and June 30, 2003, and changes during the periods ended on those dates are presented below:

For the years ended June 30	2004		2003	
	Number of Options	**Weighted Average Option Price**	Number of Options	Weighted Average Option Price
Outstanding, beginning of year	**900,400**	**$ 2.25**	1,036,700	$ 2.25
Granted	**40,000**	**2.36**	17,000	3.10
Exercised	—	—	(43,200)	1.54
Cancelled / Expired	**(30,000)**	**2.88**	(110,100)	2.68
Outstanding, end of year	**910,400**	**$ 2.23**	900,400	$ 2.25

All outstanding options at the end of the year are currently exercisable.

The following table summarizes information about stock options outstanding at June 30, 2004

Number of Options	Exercise Price	Expiry Date
120,000	$ 4.10	May 9, 2005
43,000	3.06	May 9, 2005
20,204	0.94	November 3, 2005
81,000	3.06	November 15, 2006
184,396	1.43	February 22, 2006
1,000	3.10	December 31, 2007
19,000	1.30	October 21, 2008
110,000	1.38	November 30, 2008
40,000	1.45	December 2, 2008
183,800	1.85	February 7, 2009
68,000	3.06	December 16, 2009
40,000	2.36	May 7, 2014
910,400		

Foreign currency activities: The Company negotiates the majority of its sales contracts and materials purchases in US funds. The Company's US dollar cash flows from the sale of products are naturally hedged when component materials purchases and capital asset acquisitions are also denominated in US funds. In order to manage the US dollar conversion needs of meeting Canadian dollar commitments such as payroll, the Company employs a hedging program that primarily uses forward exchange contracts. The contracts are purchased based on the projected net foreign cash flows from operations. Management intends to continue appropriate hedging against currency fluctuations in the coming years. Despite measures taken by the company to mitigate the impacts of shifting relative currency values, currency risk still exists, and could impact the financial results of future operations. In order to reduce the currency risk, at June 30, 2004, the Company had entered into forward contracts to sell US $5,400,000 at an average rate of 1.36. The contracts expire on December 15, 2005.

Dividend policy: The Company has never issued dividends and currently has no intention of instituting a dividend program. Free cash flow from operations is being used to finance property, plant, and equipment acquisitions and operations.

Financing resources: The Company has a line of credit facility and capital acquisition facility in place. At the current time the Company does not intend to draw on these facilities.

Other matters:

1. The Company has had no transactions with related parties during the year.
2. The Company has no off-balance sheet financing arrangements, (such as leases or guarantees).
3. The Company did not incur any interest expense during the year.
4. The Company currently has no unusual material proposed transactions or acquisitions.
5. The Company is co-defendant in a legal case before the US District Court of the District of Colorado in relation to patent infringement. The Company intends to vigorously defend its position in these matters. Legal counsel has indicated it is unlikely that the plaintiff will be successful in the claim. Therefore, there is no provision in the financial statements for this claim.

OUTLOOK

Pacific Insight expects to continue to grow in a controlled manner both sales and earnings over the next several years. The sales and earnings growth is anticipated due to actual customer demand, and the contact our management team and sales force have with our existing customer base. Management remains absolutely committed to ensuring that 2005 is the 13th consecutive year of profitability and growth for the company. We will also continue with the core review process to ensure we stick to our core competencies and focus the Company's resources on achieving the best possible returns for our shareholders, and making the best possible products for our customers.

RISKS AND UNCERTAINTIES

Accounting estimates

Significant areas that involve management estimates in preparing financial statements include provisions for uncollectible accounts receivable (bad debts), the amortization rate of plant and equipment, provision for product warranty, and provisions for obsolete inventory. Management and the external auditors do not believe that any of these estimates have materially misstated the Company's financial position or results of operations, however, actual results could differ from these estimates.
Other accounting estimates and accounting policies are detailed in the notes to the financial statements.

Forward looking statements

Certain information provided by Pacific Insight in the audited annual financial statements, MD&A and other documents published throughout the year that are not recitation of historical facts may constitute forward-looking statements. The words "estimate", "believe", "expect" and similar expressions are intended to identify forward-looking statements. Persons reading this report are cautioned that such statements are only predictions and the actual events or results may differ materially. In evaluating such forward-looking statements, readers should specifically consider the various factors that could cause actual events or results to differ materially from those indicated by such forward-looking statements.

Such forward-looking information may involve important risks and uncertainties that could materially alter results in the future from those expressed or implied in any forward-looking statements made by, or on behalf of the Company.

Some risks and uncertainties may cause results to differ from current expectations. The factors which are expected to have the greatest impact on Pacific Insight include, but are not limited to:
currency exposure, industry cycles, possible delays in program launches, the Company's dependence on certain major customers, and technological developments by the Company and/or its competitors. Other factors, risks and uncertainties that could cause results to differ from current expectation as discussed in this MD&A include, but are not limited to: environmental emission and safety regulation, governmental, environmental and regulatory policies and changes in the competitive environment in which the Company operates. The Company assumes no obligation to update the forward-looking statements or to update the reasons why actual results could differ from those reflected in the forward-looking statements.

For further information, please visit our web site at **www.pacificinsight.com**. For Corporate Relations, please contact our toll free line: 1-800-995-1155 or email **investor@pacificinsight.com**

Management's Responsibility for Finanacial Reporting

The financial statements and other financial information in these financial statements were prepared by the management of Pacific Insight Electronics Corp., reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the financial statements and believes that they present fairly the Company's financial condition and results of operations in conformity with Canadian generally accepted accounting principles. Management has included in the Company's financial statements amounts based on estimates and judgments that it believes are reasonable under the circumstances.

Systems of internal accounting and administrative controls are maintained by management in order to provide reasonable assurance that financial information is relevant, reliable and accurate and that transactions are authorized, assets are safeguarded and proper records are maintained. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits.

The Board of Directors is responsible for ensuring that management fulfills its financial reporting and internal control responsibilities and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

Pacific Insight Electronics Corp.'s external auditors have conducted an independent audit of the financial statements in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Board of Directors. Their report outlines the scope of their examination and their opinion.

Bradley Smithson
President, Chief Executive Officer

Stuart D. Ross
Chief Financial Officer

Auditors' Report

DAVIDSON & COMPANY — Chartered Accountants — A Partnership of Incorporated Professionals

To the Shareholders of
Pacific Insight Electronics Corp.

We have audited the balance sheets of Pacific Insight Electronics Corp. as at June 30, 2004 and 2003 and the statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Davidson & Company

Vancouver, Canada

Chartered Accountants

July 29, 2004

A Member of **SC INTERNATIONAL**

1200 -609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, B.C., Canada V7Y 1G6

Telephone (604) 687-0947 Fax (604) 687-6172

BALANCE SHEETS

As at June 30	**2004**	**2003**
ASSETS		
Current assets		
Cash and cash equivalents	**$ 2,202,291**	$ 1,516,847
Accounts receivable	**4,182,210**	3,888,736
Inventories *[note 2]*	**4,409,961**	3,824,908
Prepaid expenses and deposits	**226,508**	86,371
Income taxes receivable	**49,072**	126,158
	11,070,042	9,443,020
Property, plant, and equipment *[note 3]*	**6,636,684**	6,451,229
Product development costs	**976,622**	525,957
	$ 18,683,348	$ 16,420,206
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 2,331,500**	$ 1,480,579
Future income taxes *[note 4]*	**957,000**	752,000
	3,288,500	2,232,579
Contingencies *[note 9]*		
Shareholders' equity		
Share capital *[note 5]*	**7,565,871**	7,965,168
Contributed surplus *[note 5]*	**26,199**	—
Retained earnings	**7,802,778**	6,222,459
	15,394,848	14,187,627
	$ 18,683,348	$ 16,420,206

The accompanying notes are an integral part of these financial statements

Approved on behalf of the Board of Directors:

Cowan McKinney.

J. Cowan McKinney
Chairman of the Board

Stuart Ross

Stuart D. Ross
Director

Statements of Operations and Retained Earnings

Years ended June 30	2004	2003
Revenue	**$ 26,440,172**	$ 25,511,803
Cost of sales	**20,767,735**	19,289,380
Gross profit	**5,672,437**	6,222,423
Expenses		
Amortization of plant and equipment	**490,438**	479,227
Selling, general, and administrative	**3,039,261**	3,876,914
	3,529,699	4,356,141
Operating earnings	**2,142,738**	1,866,282
Other income	**235,656**	62,360
Earnings before income taxes	**2,378,394**	1,928,642
Income tax expense [note 4]	**798,075**	693,057
Net earnings	**1,580,319**	1,235,585
Retained earnings, beginning of year	**6,222,459**	5,496,740
Repurchase of common shares in excess of assigned value [note 5]	**—**	(509,866)
Retained earnings, end of year	**$ 7,802,778**	$ 6,222,459
Net earnings per share		
Basic	**$ 0.19**	$ 0.15
Diluted	**$ 0.19**	$ 0.14
Weighted average number of shares		
Basic	**8,131,779**	8,372,638
Diluted	**8,242,581**	8,657,562

The accompanying notes are an integral part of these financial statements

Statements of Cash Flows

Years ended June 30	**2004**	**2003**
OPERATING ACTIVITIES		
Net earnings	**$ 1,580,319**	$ 1,235,585
Items not involving cash		
Amortization of plant and equipment	**490,438**	479,227
Amortization of product development costs	**269,606**	134,951
Stock based compensation expense *[note 5]*	**26,199**	—
Future income taxes	**205,000**	154,057
	2,571,562	2,003,820
Net changes in non-cash working capital balances related to operations *[note 7]*	**(90,657)**	(1,161,427)
Cash flows provided by operating activities	**2,480,905**	842,393
FINANCING ACTIVITIES		
Issuance of share capital	**—**	66,530
Repurchase of share capital *[note 5]*	**(399,297)**	(817,684)
Cash flows used in financing activities	**(399,297)**	(751,154)
INVESTING ACTIVITIES		
Property, plant, and equipment additions	**(675,893)**	(487,176)
Product development cost additions	**(792,352)**	(355,993)
Reduction in product development costs *[note 6]*	**72,081**	—
Cash flows used in investing activities	**(1,396,164)**	(843,169)
Increase (decrease) in cash and cash equivalents	**685,444**	(751,930)
Cash and cash equivalents, beginning of year	**1,516,847**	2,268,777
Cash and cash equivalents, end of year	**$ 2,202,291**	$ 1,516,847

The accompanying notes are an integral part of these financial statements.
For supplemental disclosure with respect to cash flows, see Note 7.

1. SIGNIFICANT ACCOUNTING POLICIES

   a) *Description of business* – Pacific Insight Electronics Corp. (the Company) is engaged in the design and manufacture of advanced vehicle technologies for the automotive, heavy truck and marine industries.

   b) *Use of estimates* - The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of revenues and expenses. Actual results could differ from these estimates.

   c) *Cash and cash equivalents* – Cash and cash equivalents consists of cash and highly liquid investments.

   d) *Inventories* – Finished products are valued at the lower of average cost and net realizable value. Other inventories are valued at the lower of average cost and replacement cost which is not in excess of net realizable value.

   e) *Property, plant, and equipment* – Property, plant, and equipment is recorded at cost. Amortization is provided over the assets' estimated useful lives on a straight-line basis at the following annual rates:

Plant	2.5% - 3.3%
Equipment	6% - 20%

   f) *Research and development* – Product development costs relating to products that the Company believes are technically feasible and for which a clearly defined market exists are capitalized. Such costs are amortized over periods not exceeding the estimated revenue-generating life of the product. If costs are later determined to be unrecoverable or the product is no longer considered commercially viable, all unamortized costs are immediately charged to earnings. Research costs are expensed as incurred.

   Investment tax credits (ITC's) are accrued when reasonable assurance is first obtained that the credits will be realized. ITC's are accounted for using the cost reduction approach. Those ITC's related to capital expenditures, such as product development costs, are reflected as a reduction of the cost of the related assets, with amortization calculated on the net amount. Those ITC's related to operating expenditures are recorded as a reduction of expense.

   g) *Revenue recognition* – The Company recognizes revenue from the sale of products when the products are delivered and collection is reasonably assured. Revenue from services such as contract engineering, research, or product development is recognized when collection is reasonably assured and the contract is complete.

   The Company provides product warranties on certain products pursuant to the manufacturing contract, and makes provision for the anticipated cost of these warranties through cost of sales; this provision is reviewed periodically to assess its adequacy in the light of actual warranty costs incurred.

h) ***Foreign exchange translation*** – The Company's foreign currency transactions are translated into Canadian dollar equivalents at the rates in effect at the date of the transaction. At the balance sheet date, monetary assets and liabilities are translated at the rates in effect on that date. Exchange gains and losses are reflected in earnings as they occur.

i) ***Hedging*** – The Company enters into hedges of its foreign currency exposures on foreign currency denominated long-term debt by entering into offsetting forward exchange contracts, when it is deemed appropriate. The Company also purchases foreign exchange forward contracts to hedge anticipated sales to customers in the United States and the related accounts receivable.

j) ***Income taxes*** – Income taxes are provided for using the asset and liability method of tax accounting. Under the asset and liability method, future income tax assets and liabilities are determined based on temporary differences (differences between the accounting basis and tax basis of the assets and liabilities) and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse.

k) ***Stock based compensation*** – The Company has a stock option plan, which is described in Note 5. Effective July 1, 2003, the Company adopted the new CICA Handbook Section 3870 "Stock-based compensation and other stock-based payments", which establishes standards for the recognition, measurement, and disclosure of stock-based compensation, and other stock-based payments made in exchange for goods and services. The Company has chosen to adopt a prospective application of the new standards whereby it accounts for awards to employees and non-employees based on the Fair Value Method. Accordingly, the fair value of the options at the date of grant is accrued and charged to operations, with an offsetting credit to contributed surplus. Any consideration paid by the option holder to purchase shares is credited to share capital.

l) ***Segmented information*** – The Company conducts substantially all of its operations in North America in advanced vehicle technologies.

m) ***Earnings per share*** – Basic earnings per share is calculated based on net earnings divided by the weighted average number of shares outstanding during the year. Diluted earnings per share is computed using the treasury stock method, giving effect to the exercise of all dilutive elements. Under this method, deemed proceeds of the exercise of options and warrants are considered to be used to re-acquire common shares at an average share price.

As at June 30	**2004**	2003
Weighted average number of common shares	**8,131,779**	8,372,638
Effect of dilutive stock options	**110,802**	284,924
Diluted weighted average number of common shares	**8,242,581**	8,657,562

n) ***Comparative figures*** – Certain of the comparative figures for the prior year have been reclassified to conform to the presentation adopted in the current year.

2. INVENTORIES

As at June 30	2004	2003
Raw materials and work in process	**$ 3,892,164**	$ 3,068,965
Finished products	**517,797**	755,943
	$ 4,409,961	$ 3,824,908

3. PROPERTY, PLANT, AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value
June 30, 2004			
Property	**$ 440,831**	**$ —**	**$ 440,831**
Plant	**3,839,822**	**299,238**	**3,540,584**
Equipment	**4,949,091**	**2,293,822**	**2,655,269**
	$ 9,229,744	**$ 2,593,060**	**$ 6,636,684**
June 30, 2003			
Property	$ 440,831	$ —	$ 440,831
Plant	3,711,776	199,170	3,512,606
Equipment	4,401,244	1,903,452	2,497,792
	$ 8,553,851	$ 2,102,622	$ 6,451,229

4. INCOME TAXES

a) The Company's effective income tax rate differs from that obtained by applying the basic corporate tax rate to net earnings for the following reasons:

Years ended June 30	2004	2003
Earnings before income taxes	**$ 2,378,394**	$ 1,928,642
Combined basic Canadian federal and provincial income tax rate	36.6%	38.6%
Income tax based on above rate	**870,491**	744,456
Increase (decrease) resulting from:		
Manufacturing and processing credits	**(23,784)**	(57,859)
Additional tax deductions for prior years	**(49,290)**	—
Other	**658**	6,460
	$ 798,075	$ 693,057

b) The Company's income tax expense is comprised of the following:

Years ended June 30	2004	2003
Current tax expense	**$ 571,767**	$ 539,000
Future tax expense	**226,308**	154,057
	$ 798,075	$ 693,057

c) Significant components of the Company's future income tax liabilities are as follows:

As at June 30	2004	2003
Property, plant, and equipment	**$ 616,000**	$ 572,000
Product development costs	**348,000**	187,000
Capital loss	**(7,000)**	(7,000)
	$ 957,000	$ 752,000

5. SHARE CAPITAL

a) The authorized share capital of the Company is 100,000,000 common shares without par value.

b) Details of issued and outstanding common shares are as follows:

Years ended June 30	2004		2003	
	Number Of Shares	**Amount**	Number Of Shares	Amount
Balance, beginning of year	**8,268,868**	**$ 8,011,262**	8,596,068	$ 8,304,020
Exercise of options	—	—	43,200	66,530
Cancellation of shares	—	—	(370,400)	(359,288)
	8,268,868	**8,011,262**	8,268,868	8,011,262
Treasury shares, beginning of year	**(55,600)**	**(46,094)**	(166,500)	(97,564)
Repurchased	**(152,100)**	**(399,297)**	(259,500)	(817,684)
Cancelled	—	—	370,400	869,154
	(207,700)	**(445,391)**	(55,600)	(46,094)
Balance, end of year	**8,061,168**	**$ 7,565,871**	8,213,268	$ 7,965,168

c) Normal course issuer bid transactions – During the years ended June 30, 2003 and June 30, 2004, the Company maintained a normal course issuer bid (NCIB), allowing shares to be repurchased for cancellation. During the year ended June 30, 2004, 152,100 common shares were repurchased at an average price of $2.63 per share for a total consideration of $399,297. During the year ending June 30, 2003, 259,500 common shares were repurchased at an average price of $3.15 per share for a total consideration of $817,684. Also in fiscal 2003, 370,400 shares were cancelled and the excess cost (over book value) of $509,866 was applied to retained earnings.

d) Stock options – The Company has reserved 1,725,000 common shares pursuant to a stock option plan (the Plan). Options to purchase common shares of the Company under the Plan may be granted by the Board of Directors to certain executive officers and directors, employees and consultants of the Company. Under the Plan, the exercise price of each option shall not be less than the weighted average closing price of the Company's shares for the five trading days preceding the date of the grant. The options can be granted for a maximum term of ten years.

A summary of options outstanding under the Plan as of June 30, 2004 and June 30, 2003, and changes during the periods ended on those dates are presented below:

Years ended June 30	**2004**		2003	
	Number of Options	**Weighted Average Option Price**	Number of Options	Weighted Average Option Price
Outstanding, beginning of year	**900,400**	**$ 2.25**	1,036,700	$ 2.25
Granted	**40,000**	**2.36**	17,000	3.10
Exercised	**—**	**—**	(43,200)	1.54
Cancelled / Expired	**(30,000)**	**2.88**	(110,100)	2.68
Outstanding, end of year	**910,400**	**$ 2.23**	900,400	$ 2.25

All outstanding options at the end of the year are currently exercisable.

The following table summarizes information about stock options outstanding at June 30, 2004.

Number of Options	**Exercise Price**	**Expiry Date**
120,000	$ 4.10	May 9, 2005
43,000	3.06	May 9, 2005
20,204	0.94	November 3, 2005
81,000	3.06	November 15, 2006
184,396	1.43	February 22, 2006
1,000	3.10	December 31, 2007
19,000	1.30	October 21, 2008
110,000	1.38	November 30, 2008
40,000	1.45	December 2, 2008
183,800	1.85	February 7, 2009
68,000	3.06	December 16, 2009
40,000	2.36	May 7, 2014
910,400		

e) The fair value of the 40,000, ten year stock options granted during fiscal 2004 was determined using the Black-Scholes option pricing model based on the following underlying assumptions:

Risk free interest rate	3.92%
Expected life of the options granted	5 years
Expected volatility	22.27%
Expected dividends	0.00%

In fiscal 2004, stock based compensation of $26,199 was charged to administrative expenses, with the offset recorded as contributed surplus. The weighted average fair value of stock options granted during the year was $0.65 each, nil in 2003.

6. INVESTMENT TAX CREDITS

During the year, the Company received government assistance in the form of investment tax credits for research and development performed in the 2002 taxation year. These investment tax credits have been reflected in the financial statements in the year ended June 30, 2004, the year in which reasonable assurance was first obtained that they would be realized. An amount of $72,081 related to product development costs net of accumulated amortization has been reflected as a reduction of the cost of these assets, with amortization in future periods to be calculated on the net amount. The portion related to operating expenditures has been recorded as a reduction of the expense, increasing net earnings for the year ended June 30, 2004 by approximately $54,000. The reduction to amortization recorded in the year increased net earnings by an additional $7,000. As a result, the total increase in current year net earnings resulting from the investment tax credits received amounts to $61,000. A further

$39,000 will be recognized in the net earnings of future periods as a reduction of amortization of product development costs; of this amount, $28,000 will be recognized in net earnings in the 2005 fiscal year.

7. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Years ended June 30	**2004**	2003
Net changes in non-cash working capital balances related to operations		
Accounts receivable	**$ (293,474)**	$ (209,186)
Inventories	**(585,053)**	(458,756)
Prepaid expenses and deposits	**(140,137)**	(63,832)
Accounts payable and accrued liabilities	**850,921**	(303,495)
Income taxes receivable	**77,086**	(126,158)
	$ (90,657)	$ (1,161,427)

A summary of the amount of interest paid and income taxes paid for 2004 and 2003 is presented in the following table:

Years ended June 30	**2004**	2003
Income taxes paid	**$ 563,790**	$ 563,643
Interest paid	**—**	—

8. SIGNIFICANT CUSTOMERS

In fiscal 2004, sales to the four largest customers amounted to 31%, 27%, 7%, and 6% of total revenue; in fiscal 2003 the figures were 22%, 18%, 18%, and 10%.

9. CONTINGENCIES

The Company is co-defendant in a legal case before the US District Court of the District of Colorado in relation to patent infringement. The Company intends to vigorously defend its position in these matters. Legal counsel has indicated it is unlikely that the plaintiff will be successful in the claim. Therefore, there is no provision in the financial statements for this claim.

10. FINANCIAL INSTRUMENTS

a) Fair value

The estimated fair value of cash and cash equivalents, accounts receivable, income tax receivable, accounts payable, and accrued liabilities approximate their carrying value in the financial statements. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency, or credit risks arising from these financial instruments.

b) Credit risk

The Company is exposed to credit risk only with respect to uncertainties as to the timing and amount of collectibility of accounts receivable. The Company mitigates credit risk through standard credit and reference checks.

c) Currency risk

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. In order to reduce the risk of Canadian and US dollar currency exchange fluctuations, at June 30, 2004, the Company has entered into forward contracts to sell US $5,400,000 at an average rate of 1.36. The contracts expire on December 15, 2005. As at June 30, 2004 the unrealized gain from these contracts was approximately $141,000.

CORPORATE INFORMATION

Board of Directors and Corporate Officers

J. Cowan McKinney	Chairman
Bradley D. Smithson	Director, Chief Executive Officer, and President
Stuart D. Ross	Director, Secretary, and Chief Financial Officer
Peter R.B. Armstrong	Director
Stuart O. McLaughlin	Director

Corporate Office
1155 Insight Drive
Nelson, B.C., Canada
V1L 5P5
www.pacificinsight.com

Auditors
Davidson & Company
Vancouver, B.C., Canada

Counsel, Registered and Records Office
McCullough O'Connor Irwin
Vancouver, B.C., Canada

Investment Information

Shares Listed:	Toronto Stock Exchange ('TSX') Trading Symbol – PIH
Common Shares Authorized:	100,000,000
Common Shares Outstanding (As at Jun 30, 2004):	8,061,168

Transfer Agent
Computershare Trust Company of Canada
Vancouver, B.C. and Toronto, Ontario, Canada

Corporate Relations
Corporate relations enquiries should be directed to 1 (800) 995 1155 or via Email to **investor@pacificinsight.com**.

PACIFIC INSIGHT ELECTRONICS CORP.

1155 Insight Drive
Nelson, British Columbia
Canada V1L 5P5
www.pacificinsight.com
Telephone: (250) 354-1155
Toll free: 1 800 995-1155
Facsimile: (250) 354-1166